

# **REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KIRANDICH WATER COMPANY FOR THE YEAR ENDED 30 JUNE 2018**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kirandich Water Company set out on pages 14 to 24, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in owners' equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kirandich Water Company as at 30 June 2018, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act 2015.

### **Basis for Qualified Opinion**

#### **1. Unaccounted for Income**

The statement of comprehensive income and expenditure reflects Kshs.19,853,155 in respect of water sales. Out of the sales, collections totaling to Kshs.18,625,769 were made and a total of Kshs.17,450,067 was banked into the Revenue Account No.1211 859 827 at Kenya Commercial Bank, Kabarnet Branch, leaving a balance of Kshs.1,175,702 not banked. Although the management explained that the difference was banked into the accounts of Rift Valley Water Services Board, no evidence has been provided to confirm such transaction. Therefore, the balance of Kshs.1,175,702 of the Company's revenue has not been accounted for.

#### **2. Unaccounted for Water**

During the year under review the company produced 790,390 cubic meters (m<sup>3</sup>) of water. However, only 388,925 m<sup>3</sup> were billed to customers at Kshs.19,853,155. The balance of 401,465 m<sup>3</sup> or approximately 50.8 % of the total volume represented unaccounted for water (UFW). According to the guidelines issued by the Water Services Regulatory Board (WASREB), this quantity is 25.8 % above the allowable loss of 25%. The abnormal loss of 25.8% of the water produced may have resulted in loss of sales estimated at Kshs.10,410,800. The significant level of UFW may negatively impact on the Company's profitability and long term sustainability.

#### **3. Employee Costs**

The statement of comprehensive income and expenditure reflects a balance of Kshs.12,737,389 in respect of employee costs, which comprises salaries and wages of

Kshs.11,734,174 and travel, accommodation and subsistence of Kshs.1,003,215. However, analysis of the documents supporting the expenditure shows that the total employee cost stood at Kshs.11,184,107, leading to a variance of Kshs.1,553,282 which has not been explained. Therefore, the balance of Kshs.12,737,389 in respect of employee costs may not be fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of in accordance with ISSAI 30 on Code of Ethics.

I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Long Outstanding Debtors**

The statement of financial position reflects receivables balance of Kshs.29,231,184, which is primarily water consumer debtors. Out of the amount, Kshs.20,007,527 (or 68%) is in respect of customers whose debts have remained uncollected for a period of over 180 days. Apparently the management does not have a credit policy to determine the number of days within which consumers should settle their bills. Under the circumstances, the collectability of the outstanding debts is in doubt and the company may not be able to deliver on its

mandate to supply water. Further, the long overdue debts of Kshs.20,007,527 are likely to have an adverse effect on the liquidity position of the Company.

## **2. Unpaid Share Capital**

The statement of financial position reflects non-current liabilities balance of Kshs.100,000 in respect of ordinary share capital. According to note 9 to the financial statements, the capital is made up of 5,000 ordinary shares of Kshs.5 each. Although the memorandum of association of the Company indicates that Baringo County Government and its officials have subscribed for the shares, there is no evidence that the shares have been called and paid for. Therefore, the members of the Company have not fulfilled their obligations as provided under clause 5 of the memorandum of association.

## **3. Weakness in Controls of Information Technology Systems**

It was noted that the Company uses a software, E- PAY system for payroll purposes and another one, Resource Water Billing Pro for billing water consumers. Both software systems were donated by Rift Valley Water Services Board (RVWSB). However, the management does not have exclusive rights to the systems, since they are still controlled by RVWSB. Further, the Company staff have not been trained how to use the systems hence they still rely on the donor. Under the circumstance, the integrity of data in the Company's systems may be compromised.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.


Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**2 May 2019**

---

*Report of the Auditor-General on the Financial Statements of Kirandich Water Company for the year ended 30 June 2018*